

***Application of
South Carolina Electric & Gas Company
for approval of an increase in its retail electric rates
and charges.***

Docket No. 2002-223-E

***Testimony of
A. R. Watts
Utilities Department***

Public Service Commission of South Carolina

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TESTIMONY OF A. R. WATTS

OF

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2002-223-E

IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY

WOULD YOU PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION?

A. A. R. Watts, 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, as Chief of Electric in the Utilities Department.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a B.S. Degree in Electrical Engineering from the University of South Carolina in Columbia in 1976. I was employed at that time by this Commission as a Utilities Engineer in the Electric Department and was promoted to Chief of the Electric Department in August 1981. I have been in my current position since October 1999. I have attended professional seminars relating to electric utility rate design, and have testified before this Commission in conjunction with fuel clause, complaint, territorial assignment, Siting Act, and general rate proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

1 **A.** The purpose of my testimony is to summarize Staff's findings and
2 recommendations as set forth in the Utilities Department portion of the
3 Commission Staff Report including review of the Cost of Service Studies and
4 the Pro Forma Adjustments. In addition, I reviewed the proposed changes to
5 the Company's General Terms and Conditions as well as the new
6 depreciation study.

7 **Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?**

8 **A.** The Company owns and operates an electric system which provides retail
9 electrical service to residential, small general, medium general, and large
10 general service and street lighting customers along with service to wholesale
11 customers. Each of these classes of customers receives varying types of
12 service, and contributes different load characteristics to the system. The
13 Cost of Service Study is designed to accomplish the apportionment of the
14 Company's revenues, expenses and rate base items among individual
15 classes of customers and regulatory jurisdictions.

16 **Q. WOULD YOU EXPLAIN THE BASIS FOR THE DEVELOPMENT OF THE**
17 **COST OF SERVICE STUDY?**

18 **A.** The major components utilized in the development of a fully distributed Cost
19 of Service Study are functionalization, classification and allocation.
20 Functionalization is the process of categorizing cost according to its function,
21 which is either production, transmission or distribution. Classification is the
22 division of these costs into the characteristics of the type of service they
23 provide, namely customer, demand and energy. The allocation of these

1 costs is based upon the incurrence of the customer, energy or demand costs
2 by the individual classes.

3 **Q. PLEASE DESCRIBE THE ALLOCATION METHODOLOGY USED BY THE**
4 **COMPANY IN ITS COST OF SERVICE STUDY.**

5 **A.** The Company filed its study based on a Summer Four Hour Coincident Peak
6 Demand, which it has utilized since 1976 and that has been approved by this
7 Commission. Allocation factors for the demand related items are twofold.
8 The coincident peak allocator was developed based on the system territorial
9 peak demand between the hours of 2 p.m. and 6 p.m. on the territorial peak
10 day, which occurred on Wednesday, August 8, 2001. This allocator was
11 used for the allocation of production and transmission investments along with
12 their demand related expenses. The noncoincident peak allocator was
13 developed by combining the noncoincident peak demands of each class
14 whenever they occurred during the test year. This allocator was used for the
15 allocation of demand related distribution investments and expenses. The
16 energy related allocation factors were based on the annual kilowatt hour
17 sales for the test year adjusted for system losses. The customer related
18 factors were based on the number of customers in each respective class. In
19 addition, costs that were identified as being attributable to a specific
20 jurisdiction or class of customer were directly assigned to that category.

21 Staff concluded from our review that the methodology applied in constructing
22 these cost of service studies continues to provide reasonable apportionment
23 and allocation of the Company's revenues, operating expenses and rate
24 base. A summary of the results of the cost study utilizing the Company's

1 adjustments and proposed revenue increase is shown on Utilities
2 Department Exhibit No. 1. This Exhibit shows the rates of return for the
3 Company's South Carolina electric retail operations and each class of
4 service within the retail jurisdiction. Exhibit No. 2 shows these same
5 categories of returns and indexes using Staff's proposed adjustments.

6 **Q. WOULD YOU PLEASE EXPLAIN THE UTILITIES DEPARTMENT'S**
7 **ADJUSTMENTS WHICH YOU FEEL ARE OF PARTICULAR NOTE THAT**
8 **ARE CONTAINED IN THE UTILITIES DEPARTMENT PORTION OF THE**
9 **COMMISSION STAFF REPORT?**

10 **A.** Yes, there are two sets of adjustments that are of special note that the
11 Utilities Department was either singularly or partially responsible for
12 reviewing for this proceeding. For Adjustment Nos. 2 and 37 the Company
13 entered into a contract with the City of Greenwood, South Carolina for the
14 provision of electric service on a sale for resale basis effective March 1,
15 2002. This necessitated adjusting not only the test year expenses and
16 revenues but also inputs to the Cost of Service Study to reflect a greater
17 portion of cost responsibility being shifted away from retail operations and to
18 the wholesale jurisdiction. The changes to operating expenses and revenues
19 are reflected in Adjustment No. 2, while the effect on the Cost of Service
20 Study allocations is recognized in Adjustment No. 37.

21 Adjustment Nos. 15 & 16 are depreciation adjustments based on the
22 currently approved depreciation rates used to annualize this expense for the
23 test year to June 30, 2002 plant balances, and the proposed rates used to
24 adjust expenses based on the results of the new depreciation study,

1 respectively. The Utilities Department verified the currently approved
2 depreciation rates as well as reviewed the new depreciation study the
3 Company proposed in this case. The new study was performed using
4 standard grouping procedures and remaining life techniques applied to
5 depreciable plant balances as of December 31, 2001. The Company
6 continues to review the actual and expected service lives of depreciable plant
7 as well as the value of the salvage and cost to remove equipment at the end
8 of its useful life. The resulting rates were furnished to the Audit Department.

9 **Q. WOULD YOU PLEASE PROVIDE STAFF'S COMMENTS ON THE**
10 **COMPANY'S PROPOSED CHANGES TO ITS GENERAL TERMS AND**
11 **CONDITIONS?**

12 **A.** Certainly. After reviewing the Company's proposed modifications the
13 three areas that I would offer comment on include the change to Section III
14 (J) 10, Denial or Discontinuation of Service; the reconnection charge in
15 Section III (K); and Section IV (D) 5 concerning nonresidential customer
16 deposit requirements.

17 The proposed change to the language in Section III (J) 10 would allow the
18 Company to deny service to a premises if, at the time of application, any
19 person residing in such premises is indebted to the Company under an
20 undisputed bill for service previously rendered to that person. The current
21 language is patterned after Commission Regulation 103-342, REASONS
22 FOR DENIAL OR DISCONTINUANCE OF SERVICE, subsection (k). Under
23 certain scenarios this Regulation and the Company's currently approved
24 language would allow indebted customers to receive additional service

1 without the necessity of satisfying the outstanding obligation. Staff has been
2 aware of this for some time and has attempted to draft language that would
3 satisfactorily address this situation, but to this point has not been successful.
4 Our main difficulty in finding suitable language has been the unintended
5 adverse effect on good credit customers who are not indebted to the
6 Company. This case arises when a landlord or homeowner or other third
7 party not residing in the premises where service is requested is denied
8 service due to a renter or other individual that will be living in the premises. I
9 believe this proposed modification is inconsistent with the Commission's
10 current Regulation which would necessitate a waiver if the Commission were
11 to approve this change.

12 Staff reviewed the Company's proposal to increase the reconnection fees to
13 \$25.00 during normal working hours and \$35.00 for all other times. The cost
14 data provided indicates the expense incurred by the Company to accomplish
15 this activity is in excess of the amounts requested and therefore support
16 these increased levels. For customers who may have difficulty paying bills,
17 the Company works with consumers on payment arrangements and does
18 have programs and resources available that offer other alternatives to having
19 service disconnected. If the cost associated with this expense is not borne by
20 those customers responsible for the incurrence, this cost will be shifted to all
21 customers which is contrary to cost causation allocation.

22 The Company's requested addition of Section IV (D) 5 concerning
23 nonresidential customer deposit requirements would allow the Company to
24 collect a deposit if, in the Company's judgment, the customers credit

1 standing has deteriorated to a level of insecurity. The Company's reasoning
2 is this will provide it with the opportunity to reduce and in some
3 circumstances eliminate uncollectibles and resulting write-offs which become
4 the burden of the remainder of the ratepayers. One concern of this proposal
5 would be the possibility that the Company may impose this deposit
6 requirement on customers unnecessarily in order to have the monies in
7 hand. I believe one deterrent to this action is the Commission's currently
8 approved interest rate of 8% to be paid on customer deposits. In addition, if
9 the Commission is inclined to approve this request, I would suggest a further
10 requirement to waive that portion of Commission Regulation 103-333 (A) that
11 restricts the payment of interest on customer deposits that are held for 6
12 months or less and obligate the Company to pay the established interest rate
13 for deposits collected under this new provision. Approval of the Company's
14 recommendation in this instance would also require the waiver of
15 Commission Regulation 103-331 (A) which establishes the criteria for a
16 customer deposit.

17 **Q. PLEASE PROVIDE THE RESULTS OF YOUR REVIEW OF THE**
18 **COMPANY'S NEW DEPRECIATION STUDY.**

19 **A.** The Company's Depreciation Study was performed using standard grouping
20 procedures and remaining life technique applied to depreciable plant
21 balances as of December 31, 2001. The Company made an adjustment for
22 transfer of the Columbia Canal hydro facility which resulted in a slight
23 reduction in the proposed depreciation rate for hydro production from 1.85%
24 to 1.79%. The Company continues to review the actual and expected service

1 lives of depreciable plant as well as the value of the salvage and cost of
2 removal of equipment at the end of its useful life. The Study provides rational
3 and support for the various changes in rates from the levels previously found
4 reasonable by this Commission and the Staff does not take exception to the
5 proposed depreciation rates requested by the Company in this case.

6 **Q. MR. WATTS, ARE YOU MAKING A RECOMMENDATION AS TO THE**
7 **AMOUNT OF REVENUE THAT SHOULD BE APPROVED FOR SOUTH**
8 **CAROLINA ELECTRIC AND GAS COMPANY IN THIS CASE?**

9 A. No. I am not making any recommendation as to the amount of revenue which
10 should be allowed in this proceeding.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes. It does.
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